Statement of Senator Herb Kohl – April 12, 2005
Ranking Member, Senate Special Committee on Aging
"The Role of Employer-Sponsored Plans in Increasing National Savings"

Thank you, Mr. Chairman. We have all seen the statistics and studies on the amount of money Americans are saving for retirement, and it is striking that so few are prepared for their non-working years. Retirement income has often been compared to a "three-legged stool" which includes Social Security, employer-sponsored pensions, and personal saving. Increasingly, a fourth leg will be wages as many older Americans work past traditional retirement age.

Financial planners recommend a retirement income that replaces 70 percent of your pre-retirement earnings. With Social Security's overall replacement rate of about 45 percent, other sources of retirement income are critical. As we continue the Social Security debate, we can't ignore the other legs of the stool.

Clearly, the pension system needs improvement. Most workers are not covered by a plan, and only about half participate in a pension at all. Participation rates are poor for lower-income workers and small businesses. Contributions are also low across the board, and too many workers withdraw money before retirement. The typical balance for a 401(k) for workers near retirement is only $43,000 dollars, and for workers earning less than $25,000 a year, the typical balance is only $2,200 dollars.

It's clear that more needs to be done to encourage saving, but we need to do it right. As we will hear today, the government now spends ***more*** on tax incentives for retirement saving than Americans actually save. Almost all of these incentives are worth the most to higher-income workers, who probably would have saved even without the extra inducement from the government. Some proposals by the Administration, such as Retirement Savings Accounts and Lifetime Savings Accounts, instead of reversing this backwards incentive structure, would go even further in the wrong direction.

Obviously, we need to reorient government policy to encourage saving and improve retirement security among the population that most needs to save: our lowest-income workers. Several policies have the potential to do just that: encouraging automatic enrollment in 401(k)s; extending and expanding the Saver's Credit, which is a matching tax credit for contributions targeted toward lower-income workers; improving financial education and investment choice; and allowing taxpayers to split off a portion of their tax refund and put it directly into a savings account.

These are promising ideas with the potential to receive bipartisan support. The time to act is now; the retirement security of millions of Americans depends on it.